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Bank of America Joins Parade of Mortgage-Related Losses

By JULIE CRESWELL

The upheaval in the mortgage market, a slowing economy and an increasingly stretched consumer have made the last few quarters among the toughest since Kenneth D. Lewis, the chairman and chief executive of Bank of America, took over in 2001.

So Tuesday's emergency rate cut by the Federal Reserve was a "pleasant surprise" to Mr. Lewis, who said the move should help stave off a recession.

"It was a bold and decisive move and was exactly what the market needed," Mr. Lewis said in an interview. "Growth had become very sluggish. Absent any moves, we were very close to a recession. This gives us a chance not to have one."

Yet Mr. Lewis said the problems that banks — including his — have been facing would continue, and he predicted "anemic" growth in the first half of the year.

He made his remarks as Bank of America became the latest financial institution to offer results that showed the depth of the problems in the credit and mortgage markets. The bank said net income in the fourth quarter tumbled 95 percent, to $268 million, or 5 cents a share, from $5.26 billion, or $1.16, a year earlier.

Like other banks, a huge write-down for bad bets in mortgage-related securities cut deep into earnings. Bank of America, based in Charlotte, N.C., wrote off $5.28 billion in collateralized debt obligations, or C.D.O.'s, in the quarter. The bank still holds about $8 billion in C.D.O.'s.

Bank of America's results also reflected another troublesome front: problems with consumer credit. The bank doubled its provisions for loan losses to $3.31 billion from $1.57 billion a year earlier. The percentage of net charge-offs, or loans that the bank does not expect to collect, rose to 0.91 percent from 0.80 percent in the third quarter of 2007.

Likewise, large write-downs in mortgage-related securities and the need to raise provisions for loan losses nearly wiped out all of the fourth-quarter earnings at the Wachovia Corporation, Bank of America's cross-town rival. Wachovia reported net income of $51 million in the fourth quarter, or 3 cents a share, from $2.3 billion, or $1.20, a year earlier.

For his part, Mr. Lewis sees no relief anytime soon from consumer woes from credit cards and home equity loans. "We think late payments, delinquencies will continue. There are several states that are causing most of the deterioration, such as California, Arizona, Florida and Nevada," where housing prices have collapsed, he said. "There is a correlation between places where there have been housing declines and the spread of

delinquencies into other products," Mr. Lewis added.

But for customers with good credit, Mr. Lewis said the bank was ready to make loans.

"We have tightened standards across the board as we have seen deterioration in the market and our loss rates go up, particularly in small business," said Mr. Lewis. "But to the extent that people do meet our standards, we're open for business."

Wachovia shares rose $1.11, to $31.91, while Bank of America shares rose $1.42, to $37.39.

Last week, Merrill Lynch, the brokerage firm, posted a $9.8 billion fourth-quarter loss, which reflected a $16.7 billion write-downs, while Citigroup wrote down $23.2 billion and reported a $9.83 billion fourth-quarter loss. JP Morgan Chase & Company took a much smaller write-down, but saw its net income decline to $2.97 billion from $4.53 billion in the period a year earlier.

On Tuesday, Mr. Lewis also confirmed the bank's plan to acquire the assets of troubled mortgage lender Countrywide Financial. In recent days, there has been growing speculation that Bank of America, the nation's largest retail bank, might try to reprice or abandon its plans to buy the lender. When the deal was announced earlier this year, the stock deal was valued at $4 billion.

"We did extensive due diligence. We had 60 people inside the company for almost a month. It was the most extensive due diligence we have ever done. So we feel comfortable with the valuation," Mr. Lewis said. "We looked at every aspect of the deal, from their assets to potential lawsuits and we think we have a price that is a good price."

Still, one hurdle Mr. Lewis hopes to get over before closing on the Countrywide deal is shoring up crucial capital ratios that have tumbled in recent months at the bank. The bank hopes to raise at least $2 billion from the capital markets in the coming weeks.

"It should be easy for them to raise the money, but it's going to cost them," as credit conditions remain tight, said Meredith Whitney, a research analyst at CIBC.

Stock Options for Dimon

JPMorgan Chase, the investment bank, granted its chief executive, James Dimon, two million stock options after he helped keep subprime-related write-downs to a fraction of those reported by competitors.

The award was not part of Mr. Dimon's regular compensation and is the first given to him since he took over the bank's top job in January 2006, the company said in a regulatory filing. The options are worth at least $30 million, said Henry Higdon, a managing partner at consultant Higdon Partners.

While JPMorgan this month reported its first profit decline since Mr. Dimon took over, the bank's $1.3 billion subprime write-down for the fourth quarter compared favorably to others.